

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1066-01  
Bill No.: HB 599  
Subject: Economic Development; Taxation and Revenue.  
Type: Original  
Date: April 2, 2001

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	\$0	\$0	\$0
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
<b>Local Government</b>	<b>\$0</b>	<b>Unknown</b>	<b>Unknown</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 5 pages.

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## **FISCAL ANALYSIS**

### ASSUMPTION

Officials from the **Department of Economic Development (DED)** state this proposal revises criteria used to evaluate redevelopment projects funded by tax increment (TIF) financing. It also requires the DED to do a cost benefit analysis of the redevelopment plans submitted.

The DED assumes the need for one (1) Economic Development Program Administrator (at \$55,860 annually) to coordinate the work associated with the cost benefit analysis and one (1) Clerk IV (at \$26,460 annually) to prepare documents and correspond with developers, host municipalities, and surrounding municipalities. The DED estimates there will be up to 20 local TIF projects each year impacted by this change to the St. Louis County metropolitan area. The DED assumes the services of an outside vendor will be utilized to conduct the cost benefit analysis work, under the guidance and coordination of the DED. The DED contacted the Midwest Research Institute in Kansas City, Missouri in FY 2000 and they projected the charge to do the cost benefit analysis as roughly \$30,000 for each analysis. Since the number of cost benefit analyses to be conducted each year will vary, the DED would submit a budget request for an estimated appropriation amount to cover the varying costs of the cost benefit analysis. The cost of the analysis work would need to be appropriated to DED and would be offset by funds collected from the benefactor of the analysis. These funds would be redeposited into General Revenue.

The DED would have to charge the costs to the developer so there would be some collection efforts. The DED assumes they would need to spend \$15,000 for an upgrade of computer software to the REMI model to verify the cost benefit analysis work done by the vendor. The DED also assumes there would also be additional costs of \$10,000 per year for data maintenance, software upgrades, software training and equipment upgrades.

Officials from the **Department of Revenue (DOR)** assumes that the fee DED charges will be transmitted to DOR through the Investment Cash Management Office. This will have no impact on DOR.

Officials from the **Office of the State Courts Administrator** and the **State Tax Commission** assume this proposal will not fiscally impact their respective agencies.

Officials from the **St. Charles County Government** assume passage of this legislation would result in significant sales tax savings for their agency. They state that although it is not possible to estimate the amount of savings this proposal would provide, abuse of the current TIF law by municipalities within the county is costing St. Charles County Government approximately \$1 million per year. This proposal would restrict the use and amount of public funds for projects

ASSUMPTION (continued)

which would economically warrant such assistance. Although this proposal would have no effect on current TIFs, it would limit future TIFs, which would reduce or eliminate the diversion of additional sales taxes from the County to municipalities.

Officials from the **City of St. Louis** assume this proposal would fiscally impact on them.

Officials from **Jefferson County, St. Louis County, Warren County Franklin County, Crawford County, Lincoln County, St. Francois County, Ste. Genevieve County,** and **Washington County** did not respond to our request for fiscal impact.

**Oversight** assumes the Department of Economic Development can collect the contract expense from the project developers for the cost benefit analysis in the same fiscal year that the expenditure occurs. Oversight also assumes the DED will not require the additional FTE nor the computer expenses since they are expecting to contract out the cost ratio analysis evaluations.

The effective date of this proposal is July 1, 2002. Therefore, Oversight assumes there will be no fiscal impact in FY 2002.

<u>FISCAL IMPACT - State Government</u>	FY 2002	FY 2003	FY 2004
<b>GENERAL REVENUE</b>			
<u>Costs</u> - Contract expense for cost benefit analysis (DED)	\$0	(\$618,000)	(\$636,540)
<u>Income</u> - Recovery of contract expense for analysis from the TIF developer	<u>\$0</u>	<u>\$618,000</u>	<u>\$636,540</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2002	FY 2003	FY 2004
<b>LOCAL POLITICAL SUBDIVISIONS</b>			

FISCAL IMPACT - Local Government

FY 2002

FY 2003

FY 2004

Revenue - Reimbursement from the  
Special Allocation Fund for emergency  
service

\$0

Unknown

Unknown

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses if they are in a potential tax increment financing district.

DESCRIPTION

This proposal changes criteria used to evaluate redevelopment projects funded by tax increment financing (TIF) in the City of St. Louis and in St. Louis, Jefferson, Warren, St. Charles, Franklin, Crawford, Lincoln, St. Francois, Ste. Genevieve, and Washington counties. The proposal requires approved project areas to have high unemployment, low fiscal capacity, poverty, be a redevelopment project of regional significance, avoid unfair competition with existing business, and meet other criteria showing economic decline.

The proposal creates requirements for retail development, requires cost analysis of the impact of the proposed development, allows any affected person to file an action in the circuit court challenging the project's eligibility, and allows sharing of payments in lieu of taxes among affected political subdivisions.

The proposal also requires the enumerated counties and the City of St. Louis to create regional tax increment financing review authorities for the purpose of determining whether projects meet the criteria as provided in the bill and approve or reject the projects.

The proposal also limits the maximum amount of public funding for approved TIF projects to 30% of the total project costs. In some situations, including areas experiencing high levels of unemployment or poverty, the share of public funding for TIF projects may be 50% of the total project's costs.

The proposal will become effective July 1, 2002.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development  
Department of Revenue  
Office of the State Courts Administrator  
State Tax Commission  
St. Charles County Government  
City of St. Louis

**NOT RESPONDING: Jefferson County, St. Louis County, Warren County Franklin County, Crawford County, Lincoln County, St. Francois County, Ste. Genevieve County, Washington County.**

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is stylized with a large initial "J" and a cursive "T".

Jeanne Jarrett, CPA  
Director

April 2, 2001